



MICHAEL J. MURPHY  
State Treasurer

State of Washington  
Office of the Treasurer

March 15, 2005

Sen. Ken Jacobsen  
P.O. Box 40446  
Olympia, WA 98504-0446

Dear Sen. Jacobsen *Ken*

This letter is a follow-up to two topics we discussed in a recent conversation. The first is the monorail. As you know, I've expressed concerns about the project, privately and in testimony.

The total construction cost is capped at \$1.5 billion, with financing probably over 40 years. If you use 6 percent as an interest rate assumption, interest payments for the first year would total \$90 million, with none of the principal paid down. Even if the rate is at 5 percent, the first-year interest-only bill would be \$75 million. Monorail officials project receipts from the motor vehicle excise tax (MVET), which will be used to repay the initial bonding, at \$47 million the first year. Something doesn't add up.

To make the math pencil, the monorail authority must be thinking of back-loading its repayment schedule out to 2045. The monorail authority assumes annual growth of the MVET at between 6 percent and 6.7 percent. I don't know the monorail's specific plan, but growth of the MVET can only come from increased ownership of vehicles and/or escalating values of vehicles sold. If vehicle ownership remains relatively constant, then the monorail must be extrapolating about future values of vehicles. I can't say with certainty that it won't work, but the monorail authority can hardly be certain that it will.

The other topic we touched on was pay-as-you-go financing for transportation and our concept of "If you don't bond, you don't build." You asked for some facts and figures to use in legislative discussions.

We use a "leverage factor" of 13 or 14 times (at today's interest rates) by bonding as opposed to pay-as-you-go. In simple terms, the dollar you spend in a pay-as-you-go plan would buy \$13 or \$14 worth of projects when leveraged through bonding.

In larger terms, \$100 million of pay-as-you-go would equate to \$1.4 billion in transportation projects through bonding. Obviously, as interest rates rise, the leverage factor would go down.

I hope this information is helpful. As always, my door is open, and I look forward to talking with you again on these or any other subjects.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mike", with a long, sweeping underline.

MICHAEL J. MURPHY  
WASHINGTON STATE TREASURER